

# The Apple Watch's Big Problem

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Apple begins taking pre-orders for its new watch today. This stylish watch includes the ability to track your heart-rate, use ApplePay, view text/email messages and take calls Dick Tracy-style by speaking into your wrist (so long as the watch is linked to a nearby iPhone). This product launch is unusual for Apple because it is offering a wide range of styles via a combination of options: two types of watch case sizes (38mm, 42mm), three different watch cases (stainless steel, aluminum, 18 karat gold), and a variety of watch bands.

That wide range of options results in a wide range of prices. The watch will cost from \$349 (aluminum case, rubber band) to \$17,000 (18 karat gold case, leather band with brass buckle).

I'm not a tech reviewer, but based on what I've read so far, I'd grade the watch an A for ambition and a D for pricing strategy.

First, the positives: The watch continues Apple's tradition of technology excellence, but brings the company into a new market realm — fashion. Apple realizes that watches, far more than smartphones, are an expression of the owner. Apple rolled big on this release by trying to serve the wide and varied consumer market instead of producing a utilitarian smartphone accessory targeted towards technology wonks. That's a level of ambition I admire.

Its pricing strategy, in contrast, will cre-

ate major hurdles to long-term success.

**The first problem is the issue of up-grades. Apple has long been criticized for the way its frequent updates result in planned obsolescence.** It's expected that Apple will release improved watches in the near future, just as it does for its smartphones. (A new iPhone version is typically released every September). So forget about the top-of-the-line \$17,000 version — why spend even \$3,000 today for an everyday wearable that will look outdated and be functionally inferior in a year or so? It doesn't make sense. In contrast to the advertising tagline for Patek Phillipe (*"You never really own a Patek Phillipe, you merely look after it for the next generation"*), consumers who buy a watch are choosing a very expensive disposable timepiece.

Second, in contrast with smartphones, cell phone carriers aren't subsidizing or providing monthly payment plans to make owning the latest technology financially accessible. If consumers had to pay the unsubsidized cost of an iPhone 6 (\$649 to \$849, depending on storage), most would be very slow to upgrade. The lack of subsidies on the watch will make — or at least should make — consumers even more anxious about the cost of upgrades.

Third, the price range is extremely wide — in fact, it's too wide, and that's a big mistake. It's rare for one brand to serve such a wide spectrum of customers — in the Watch's case, \$349 (somewhat accessible) to \$17,000 (garishly expensive). Timex, for instance, targets the lower price range in the watch market while Rolex serves the high end.

The downside of this wide price range, from a brand perspective, is further complicated by the technology component of the Watch. When consumers see prices ranging up to \$17,000, they tend to psychologically believe they'll have to spend somewhere around the midpoint (say, \$8,000) to get a "good one" (from a technology standpoint). The reality is

the Watch's technical performance is the same no matter what the price — the price differential is based on the various metals and adornments — but this truth is obfuscated by the wide price range. So what should Apple have done?

First, I would have narrowed the price range to, say, \$249 to \$2,000. Sure, that will knock out the profitable high-end, but what Apple needs now is mass adoption. This narrow price range acknowledges the 1–2 year disposability of the Watch, provides a spectrum of choices, and doesn't psychologically scare customers away. I'd also offer a monthly payment plan to make the watch more accessible to everyone.

Next, Apple needs to boldly address the white elephant: watch technology will be much better in the near future. Perhaps for its higher-priced watches, this reality can be handled with a trade-in program (a guaranteed credit when an owner buys a new version). This will help customers overcome the obsolescence obstacle.

Finally, Apple should consider also bundling the watch with its iPhone. The bulk of iPhone 6 sales, for instance, have been made and a value bundle makes sense to sell more units by providing enhanced value. It would have been genius to offer this bundle to combat the other big technology release today of Samsung's highly anticipated Galaxy 6.

Creatively employing these pricing tactics would have helped Apple overcome key obstacles to help ensure this first generation watch is the foundation of another big product category.

**Make no mistake: There will be a weekend of frenzied sales fueled by diehard and deep-pocketed Apple fans. But with \$183 billion in annual revenues, Apple needs sustained sales to prove the watch has big product potential.** Due to its sub-optimal pricing strategy, it's not clear this will happen.